MADISON'S TIMBER PREVIEW

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The US Federal Reserve announced Wednesday it would commit to buying US$600 billion more in government bonds by the middle of 2011 in an attempt to breathe new life into a struggling US economy. World stock markets promptly surged on the news. By market close Thursday, the S&P/TSX composite index closed 207.67 points higher, or 1.6 per cent, London's FTSE 100 index was up 101.25 points, or 1.8 per cent, while Germany's DAX rose 1.4 per cent and the CAC-40 in France was up 2.1 per cent. In New York, the Dow Jones industrial average jumped 219.71 points, or 2 per cent.

There were over 7,000 news articles written on the subject in the space of a few hours. Will the euphoria last? There continue to be some very real problems with the US economy in general and the home building industry in particular.

The Dow Jones US Home Construction Index also took a wild ride this week, spiking 6.76 per cent from a two-month low of 11.32 on November 1 to finish November 4 at 12.01. The Index previously dropped 2.59 per cent from its four-month high of 12.09 on September 28. The highest point for the Index in 2010 was on May 3, at 15.67.

After this week's mid-term elections, nearly half of the state attorneys general heading a nationwide probe into US home foreclosures will not be in their jobs next year, while re-elected lead investigator Iowa Attorney General Thomas Miller said the 50-state probe into foreclosure processes will continue as planned. JP Morgan and MetLife have announced they will resume foreclosures in the coming weeks, just as Bank of America, the largest US lender, is facing demands from mortgage investors to repurchase almost US$13 billion of loans that may have failed to document key data such as income and home values. BoA share prices have fallen 41 per cent since April 15.

Credit Agricole Securities bank analyst Mike Mayo released a report Tuesday suggesting, “'the possibility exists that somebody at Bank of America could try to use a Countrywide Financial bankruptcy as an ‘ace card’ as part of its negotiations.' (As in, stop bugging us about these botched foreclosure documents, or we’ll tip Countrywide into Chapter 11 and leave you to deal with the courts.)", according to the Wall Street Journal.

Countrywide, BoA's distressed mortgage-lending arm, is severely troubled at the moment, with more than 85 per cent of its loans in danger of delinquency. William Black and L. Randall Wray at the Huffington Post call for BoA to "open its books" and declare that "the FDIC should place Bank of America in receivership and the federal banking agencies should impose a moratorium on foreclosures until the mortgage servicers correct their systems" in a piece released late Thursday.

According to a Nasdaq News Editorial published late Thursday, the Fed's $600 billion program essentially puts a floor under asset prices.

"One of the big asset classes is housing. I've discussed before the importance of a recovery in housing if the economy is going to grow - now we're seeing that the Fed has housing in its crosshairs. Lower interest rates will help decrease housing inventory by making it more affordable for people to buy homes - and also help those who have second and third homes that they need to get rid of," wrote Ian

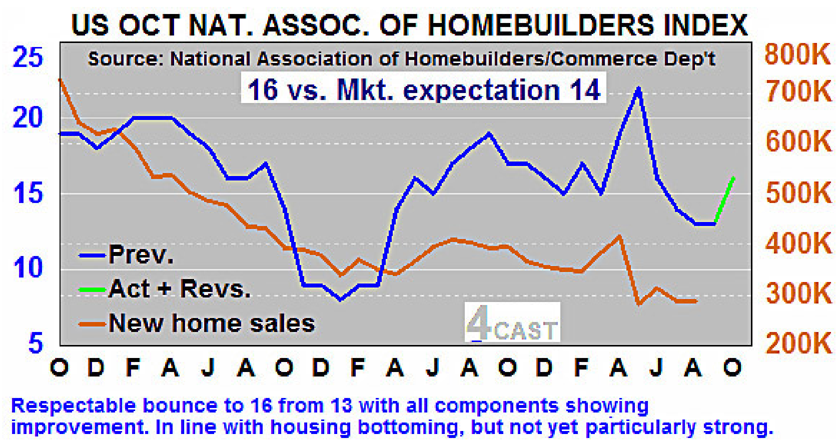
Wyatt. "Housing related trades are one way to play the Fed's program. Housing is a beaten down sector, and successful contrarian investors are now adding exposure. I believe the stock's upside potential far outweighs the downside risk at this point. Soon more investors will realize that [companies like Lumber Liquidators] aren't completely dependent on a housing recovery. Instead, growth will come from selling energy technology and adding value to low cost energy sources like coal."

Meanwhile, US construction spending rose unexpectedly in September as investment in public projects touched the highest level in more than a year, a Commerce Department report showed on Monday.

Construction spending increased 0.5 per cent to an annual rate of US$801.7 billion. August's construction outlays were revised down to show a 0.2 per cent decline instead of the previously reported 0.4 per cent gain. Investment in private construction was flat after dropping 1.6 per cent in August.

The latest National Association of Home Builders' Remodeling Market Index, released October 28, remained essentially unchanged at 40.8 in 3Q 2010, compared to 40.7 in 2Q. An RMI below 50 indicates that more remodelers report that market activity is declining than report that it is increasing. The RMI has been running below 50 since the final quarter of 2005.

Despite these languishing indicators, FX Market Alerts boldly forecast the remodeling index will improve.



Economist predictions aside, lumber futures at close Thursday reached their five-year moving average of $266.60, reaching a high in March of 2010 due solely to demand out of Asia, specifically China.

Next week, which includes a holiday for Remembrance Day in Canada, is sure to be interesting in markets of all stripes.

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Lumber Futures Moving Average
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